

ALBION HOUSING COMMISSION
ALBION, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Albion Housing Commission		County Calhoun	
Fiscal Year End September 30, 2007		Opinion Date April 25, 2008		Date Audit Report Submitted to State May 31, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Report on Compliance and Internal Controls	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue			City Traverse City	State MI
			Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA		License Number 11050

ALBION HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Albion Housing Commission
Albion, Michigan

I have audited the accompanying financial statements of the business-type activities of Albion Housing Commission, Michigan, a component unit of the City of Albion, as of and for the year ended September 30, 2007, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Albion Housing Commission, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Albion Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated April 25, 2008, on my consideration of Albion Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 10, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Albion Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Albion Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Taudels, CPA, PC

April 25, 2008

**Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Unaudited)**

As management of the Albion Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Albion Housing Commission's financial activities for the fiscal year ended September 30, 2007. This discussion and analysis letter of the Albion Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

FINANCIAL HIGHLIGHTS

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of September 30, 2007 were \$3,460,018. The net assets decreased by \$115,912, a decrease of 3.24% from the prior year.

Revenues and contributions for the Commission were \$1,038,149 for the fiscal year ended September 30, 2007. This was a decrease of \$278,236 or 21.1% from the prior year.

Expenses for the Commission were \$1,146,548 for the fiscal year ended September 30, 2007. This was an increase of \$92,751 or 8.8% over the prior year.

HUD operating grants were \$469,252 for the fiscal year ended September 30, 2007. This was an increase of \$12,756 or 2.8% over the prior year. Capital contributions were \$144,968 for the fiscal year ended September 30, 2007. This was a decrease of \$338,562 or 70.0% from the prior year.

Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the *Financial Data Schedule (FDS)* as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the *Financial Data Schedule (FDS)* as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting

Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

package.

FUND STATEMENTS

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Albion Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$3,460,018 at the close of the fiscal year ended September 30, 2007 an increase from \$3,575,930 in 2006. The decrease in net assets of \$115,912 was due to the change in net assets for the fiscal year.

The unrestricted net assets were \$772,709 as of September 30, 2007. This amount may be used to meet the Commission's ongoing obligations. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)

FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF NET ASSETS
September 30,

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Current and other assets	\$ 945,884	\$ 964,321	\$(18,437)	(1.91)%
Capital assets	<u>2,687,309</u>	<u>2,764,521</u>	<u>(77,212)</u>	<u>(2.79)%</u>
Total Assets	<u>3,633,193</u>	<u>3,728,842</u>	<u>(95,649)</u>	<u>(2.57)%</u>
Current liabilities	94,224	81,679	12,545	15.36%
Noncurrent liabilities	<u>78,951</u>	<u>71,233</u>	<u>7,718</u>	<u>10.83%</u>
Total Liabilities	<u>173,175</u>	<u>152,912</u>	<u>20,263</u>	<u>13.25%</u>
Net Assets:				
Invested in capital assets	2,687,309	2,764,521	(77,212)	(2.79)%
Unrestricted	<u>772,709</u>	<u>811,409</u>	<u>(38,700)</u>	<u>(4.77)%</u>
Total Net Assets	<u>\$3,460,018</u>	<u>\$3,575,930</u>	<u>\$(115,912)</u>	<u>(3.24)%</u>

The current assets decrease of \$18,437 was due in part, to cash being used to purchase \$96,124 in capital assets as shown in the Statement of Cash Flows.

Current liabilities increased by \$12,545, in large part, due to deferred revenues (rents paid in advance) were \$7,804 more than the prior year and accounts payable to vendors was \$2,939 more than the prior year.

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

**Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)**

FINANCIAL ANALYSIS (CONTINUED)

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
September 30,**

As can be seen in the following table total revenues and contributions decreased by \$278,236, in large part, due to a decrease in the capital grant funding of \$338,562. Several years capital grants were closed out in the prior year and only one capital grant fund was used this fiscal year. Interest income increased by \$26,432, mainly due to the interest rates being higher this fiscal year. Other income increased by \$11,076 due and increase in the community room rentals and court cost receipts.

	<u>2007</u>	<u>2006</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues and contributions				
Operating, nonoperating, capital contributions:				
Tenant Revenue	\$ 343,067	\$ 334,667	\$ 8,400	2.5%
Nondwelling rent	<u>6,301</u>	<u>4,639</u>	<u>1,662</u>	35.8%
Total PHA generated Revenue	349,368	339,306	10,062	3.0%
HUD operating grants	469,252	456,496	12,756	2.8%
Capital contributions	144,968	483,530	(338,562)	(70.0)%
Other income	27,859	16,783	11,076	66.0%
Interest income	<u>46,702</u>	<u>20,270</u>	<u>26,432</u>	130.4%
Total Revenues and Contributions	<u>1,038,149</u>	<u>1,316,385</u>	<u>(278,236)</u>	(21.1)%
Expenses				
Personnel services	532,959	483,064	49,895	10.3%
Tenant services	20,877	25,465	(4,588)	(18.0)%
Utilities	122,853	119,699	3,154	2.6%
Operations and maintenance	118,591	103,554	15,037	14.5%
Protective services	864	864		
Insurance	77,741	63,506	14,235	22.4%
Payments in lieu of taxes	22,672	22,003	669	3.0%
Other supplies and expenses	84,168	73,704	10,464	14.2%
Depreciation	<u>165,823</u>	<u>161,938</u>	<u>3,885</u>	2.4%
Total Expenses	<u>1,146,548</u>	<u>1,053,797</u>	<u>92,751</u>	8.8%
Income(loss) before transfers	(108,399)	262,588	370,987	
Equity transfers	<u>(7,513)</u>	<u>(10,872)</u>	<u>(3,359)</u>	
Change in net assets	(115,912)	251,716	(367,628)	
Beginning net assets	<u>3,575,930</u>	<u>3,324,214</u>	<u>251,716</u>	
Ending net assets	<u>\$3,460,018</u>	<u>\$3,575,930</u>	<u>\$(115,912)</u>	

Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)

FINANCIAL ANALYSIS (CONTINUED)

Revenues:

Albion Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants can be classified as either soft cost revenue or hard cost revenue, for this fiscal year the Housing Commission chose to classify the grants as hard costs. Revenue received from HUD for fiscal year ended September 30, 2007 for the low rent program for operations increased from fiscal year ending September 30, 2006 to September 30, 2007 by \$12,756. For the fiscal year ending September 30, 2007, revenue generated by the Commission accounted for \$349,368 (or 34% of total revenue), while HUD contributions accounted for \$614,220 (or 59% of total revenue).

Expenses:

Total Expenses for the fiscal ending September 30, 2006 were \$1,053,797 while for the fiscal year ending September 30, 2007 they were \$1,146,548. This represents an 8.8% increase in our operating costs. The expenses increased, in large part, because personnel costs increased \$49,895 due mainly to more overtime hours for maintenance personnel and inflation increases in wages and benefits. Insurance increased by \$14,235, due to higher rates for the Housing Commission. Operations and maintenance costs increased by \$15,037, in large part, due to an increase in contracted services of \$19,126 for a boiler replacement and hot water heater replacements. Other supplies and expenses increased by \$10,464, due in part, to legal expenses increasing by \$4,800 and travel increasing by \$11,587 over the prior year.

The following represents changes in Federal Assistance received:

	<u>09/30/07</u>	<u>09/30/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing				
Operating Subsidy	\$ 469,252	\$ 456,496	\$ 12,756	2.8%
Capital Fund Program				
Grants	<u>144,968</u>	<u>483,530</u>	<u>(338,562)</u>	<u>(70.0)%</u>
Total	<u>\$ 614,220</u>	<u>\$ 940,026</u>	<u>\$ (325,806)</u>	<u>(34.7)%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The decrease in the Capital Fund Program was due to the fact that fewer work projects during the fiscal year ending September 30, 2007 were completed than the prior fiscal year.

Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)

FINANCIAL ANALYSIS (CONTINUED)

Budget Analysis:

A Low Rent Public Housing Operating Budget for the fiscal year ending September 30, 2007 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

OPERATIONAL HIGHLIGHTS

The Albion Housing Commission provided the following housing for low-income elderly and low-income families:

	September 30, <u>2007</u>	September 30, <u>2006</u>
Low Rent Public Housing	217	217

During the fiscal year ending September 30, 2007, Albion Housing Commission maintained a lease-up rate of 91.1% in its Public Housing Program.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

We know of no other currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes)

CAPITAL ASSETS

During the fiscal year ending September 30, 2007, our Capital Fund Program work projects included:

Albion Housing Commission
Management's Discussion and Analysis (MD&A)
September 30, 2007
(Continued)

CAPITAL ASSETS (CONTINUED)

Improvements for the maintenance building, fence, and Peabody Place improvements in the amount of \$65,859. Trees were removed for \$2,778. A 2001 Truck was purchased for \$8,423. Twelve refrigerators and stoves were purchased for \$7,440. Two boilers were purchased for \$11,624.

Capital projects planned for the next fiscal year include continuing site improvements of the facilities and replacing hot water heaters.

The Albion Housing Commission's investment in capital assets, as of September 30, 2007 amounts to \$2,687,309 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

**CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION
September 30,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>
Land	\$ 19,144	\$ 19,144	\$
Buildings	9,144,043	9,144,043	
Furniture, equipment and machinery - dwellings	99,001	91,561	7,440
Furniture, equipment and machinery - administration	374,786	363,547	11,239
Building improvements	<u>2,793,483</u>	<u>2,723,550</u>	<u>69,933</u>
	12,430,457	12,341,845	88,612
Accumulated depreciation	(9,743,148)	(9,577,324)	(165,824)
Total	<u>\$ 2,687,309</u>	<u>\$ 2,764,521</u>	<u>\$ (77,212)</u>

Capital assets decreased by \$77,212, because capital outlays of \$96,124, an adjustment of \$(7,512), and depreciation of \$(165,824).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Ann Kemp, Executive Director
Albion Housing Commission
1300 Cooper Street, Albion, MI 49224

FINANCIAL STATEMENTS

ALBION HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2007
=====

ASSETS

Current Assets:

Cash and cash equivalents	\$ 139,458
Receivables, net	7,929
Investments	768,151
Prepaid expenses	<u>30,346</u>

Total Current Assets	<u>945,884</u>
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Capital Assets:

Land	19,144
Buildings	9,144,043
Equipment	473,787
Building improvements	<u>2,793,483</u>
	12,430,457
Less: accumulated depreciation	<u>(9,743,148)</u>

Net Capital Assets	<u>2,687,309</u>
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Total Assets	<u>\$ 3,633,193</u>
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See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2007
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 18,412
Accrued expenses	14,115
Accounts payable-other government	22,672
Tenant security deposits	28,523
Deferred revenues	<u>10,502</u>
Total Current Liabilities	94,224
Noncurrent liabilities:	
Accrued compensated absences	<u>78,951</u>
Total Liabilities	<u>173,175</u>
Net Assets:	
Invested in capital assets	2,687,309
Unrestricted net assets	<u>772,709</u>
Total Net Assets	<u>3,460,018</u>
Total Liabilities and Net Assets	<u>\$ 3,633,193</u>

See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Year Ended September 30, 2007
=====

OPERATING REVENUES:

Dwelling rent	\$ 343,067
Nondwelling rent	6,301
Operating grants	<u>469,252</u>

Total operating revenues	<u>818,620</u>
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OPERATING EXPENSES:

Administration	370,832
Tenant services	20,877
Utilities	122,853
Ordinary maintenance and operation	360,040
Protective services	864
General expenses	104,542
Extraordinary maintenance	717
Depreciation	<u>165,823</u>

Total operating expenses	<u>1,146,548</u>
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Operating income(loss)	<u>(327,928)</u>
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NONOPERATING REVENUES:

Investment interest income	46,702
Other income	<u>27,859</u>

Total nonoperating revenues	<u>74,561</u>
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Income(loss) before contributions and transfers	(253,367)
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**CAPITAL CONTRIBUTIONS
EQUITY TRANSFERS**

	144,968
	<u>(7,513)</u>

Change in net assets	(115,912)
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Net assets, beginning	<u>3,575,930</u>
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Net assets, ending	<u>\$ 3,460,018</u>
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See notes to financial statements

ALBION HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2007
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 358,950
Cash received from operating grants	469,252
Cash payments to other suppliers of goods and services	(428,294)
Cash payments to employees for services	(525,648)
Cash payments for in lieu of taxes	<u>(22,003)</u>
Net cash (used) by operating activities	<u>(147,743)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	1,540
Other revenue	<u>27,859</u>
Net cash provided by noncapital financing activities	<u>29,399</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	144,968
Payments for capital acquisitions	<u>(96,124)</u>
Net cash provided by capital and related financing activities	<u>48,844</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments increased by	(369,579)
Receipts of interest and dividends	<u>46,702</u>
Net cash (used) by investing activities	<u>(322,877)</u>

Net increase(decrease) in cash	(392,377)
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Cash and cash equivalents, beginning	<u>531,835</u>
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Cash and cash equivalents, ending	<u><u>\$ 139,458</u></u>
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ALBION HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2007
=====

RECONCILIATION OPERATING INCOME(LOSS)
TO NET CASH PROVIDED BY OPERATING
ACTIVITIES:

Operating income(loss)	\$(327,928)
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:	
Depreciation	165,823
Bad debt allowance adjustment	(5,700)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	1,778
Prepaid expenses	(439)
Increase (decrease) in liabilities:	
Accounts payable	2,939
Accrued wage/payroll taxes payable	(1,229)
Accrued compensated absences	8,540
Accounts payable-PILOT	669
Deferred revenues	<u>7,804</u>
Net cash (used) by operating activities	<u><u>\$(147,743)</u></u>

See notes to financial statements

ALBION HOUSING COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2007
=====

NOTE 1: Summary of Significant Accounting Policies

The Albion Housing Commission (the Housing Commission) is a component unit of the City of Albion, a Michigan home rule City. The Housing Commission is a Public Housing Agency created by the City of Albion on July 10, 1950, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1(a) Financial Reporting Entity

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
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In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

1(b) Basis of Presentation

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

Program	Brief Description
Low Rent Program	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

1(c) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1(d) Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

Interprogram Receivables and Payables

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

1(d) Assets, Liabilities, and Equity (Continued)

Budgets and Budgetary Accounting

The Housing Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

Estimates and Assumptions

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$1,000 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses, and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15 - 25 years
Building improvements	15 - 25 years
Equipment and furnishings	7 - 10 years

Compensated Absences

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

1(d) Assets, Liabilities, and Equity (Continued)

Equity Classifications

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.
- b. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

1(e) Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

Interfund Transfers

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: Stewardship, Compliance, and Accountability

The Housing Commission and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows.

2(a) Program Accounting Requirements

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

Program	Required By
Public and Indian Housing	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD

2(b) Deposits and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written Depository Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

2(c) Revenue Restrictions

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Capital Fund Program	Modernization

For the year ended September 30, 2007, the Housing Commission complied, in all material respects, with these revenue restrictions.

NOTE 3: Detail Notes on Transactions Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3(a) Cash and Investments

Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at September 30, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 72,152	\$ 72,152	\$	\$	\$ 48,310
Certificate of deposit	91,148	91,148			91,148
	<u>\$163,300</u>	<u>\$163,300</u>	<u>\$</u>	<u>\$</u>	<u>\$ 139,458</u>

Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Note 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at September 30, 2007. The categories of credit risk are defined as follows:

3(a) Cash and Investments (Continued)

Investments (Continued)

Category 1 - Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2 - Uninsured and unregistered with securities held by counterparty's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Housing Commission's name.

	<u>Custody Credit Risk</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Certificates of deposits	\$ 379,993	\$ 45,884	\$	\$ 425,877	\$ 425,877
Money market	10,782			10,782	10,782
U.S. Treasury Bills	230,522			230,522	230,522
Governmental funds	100,970			100,970	100,970
	<u>\$ 722,267</u>	<u>\$ 45,884</u>	<u>\$</u>	<u>\$ 768,151</u>	<u>\$ 768,151</u>

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Carrying amount of deposits	\$ 139,458
Investments	768,151
Total	<u>\$ 907,609</u>
Cash and investments:	
Enterprise activities	\$ 931,474
Enterprise activities - deposits in transit	6,674
Enterprise activities - checks written in excess of deposits	(30,539)
Total	<u>\$ 907,609</u>

3(b) Receivables

Receivables detail at September 30, 2007, is as follows:

Tenant accounts receivable	\$ 8,590
Allowance for doubtful accounts	(661)
	<u>\$ 7,929</u>

3(c) Capital Assets

Capital asset activity for the year ended September 30, 2007, was as follows:

	<u>Balance</u> <u>09/30/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/07</u>
Low Rent Program				
Land	\$ 19,144	\$	\$	\$ 19,144
Buildings	9,144,043			9,144,043
Furniture, equip. & machinery - dwellings	91,561			91,561
Furniture, equip. & machinery - administration	363,547	2,596		366,143
Building improvements	<u>2,213,172</u>		<u>(1)</u>	<u>2,213,171</u>
	11,831,467	<u>\$ 2,596</u>	<u>\$ (1)</u>	11,834,062
Less accumulated depreciation	<u>(9,577,324)</u>	<u>\$ (165,823)</u>	<u>\$ 1</u>	<u>(9,743,148)</u>
Total	<u>\$2,254,143</u>			<u>\$2,090,914</u>
Capital Fund Program				
Furniture, equip. & machinery - dwellings	\$	\$ 7,440	\$	\$ 7,440
Furniture, equip. & machinery - administration		8,643		8,643
Building improvements	<u>510,378</u>	<u>69,934</u>		<u>580,312</u>
Total	<u>\$ 510,378</u>	<u>\$ 86,017</u>	<u>\$</u>	<u>\$ 596,395</u>
Combined Totals				<u>\$2,687,309</u>

3(d) Accrued Expenses

Accrued expense detail at September 30, 2007, is as follows:

Accrued wage/payroll taxes payable	\$ 5,343
Accrued compensated absences-current portion	<u>8,772</u>
	<u>\$ 14,115</u>

3(e) Interprogram Transactions and Balances

Equity Transfers

The capital fund program transferred \$58,951 to the low rent program during the fiscal year ended September 30, 2007.

3(e) Interprogram Transactions and Balances (Continued)

Interprogram Receivable/Payable

There were no interprogram receivables and payables between programs.

NOTE 4: Other Notes

4(a) Employee Retirement Plan

The Housing Commission participates with the City of Albion where each employee is covered under a defined benefit plan with the Michigan Municipal Retirement System (MERS) that provides for annual employer contributions with complete vesting after ten(10) years. At December 31, 2006, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits for nonunion members was \$3,591,828. The present value of accrued benefits available to meet this obligation were \$733,713. The Valuation of the Assets for the Housing Commission as of December 31, 2006 was \$1,025,991, leaving an overfunded balance of \$340,129. There are 9 active members, 1 vested former member and 4 retirees and beneficiaries. The Municipality had employee payroll of \$334,263, but did not have to make an employer contribution since there was an overfunded balance.

Further details are available from MERS at (800) 767-6377.

4(b) Risk Management

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Insurance coverage under the Michigan Township Participating Plan.
b. Injuries to employees (workers' compensation)	Insured by the Accident Fund.
c. Physical property loss and natural disasters	Insurance coverage under the Michigan Township Participating Plan.
d. Liability	Insurance coverage under the Michigan Township Participating Plan.

4(b) Risk Management (Continued)

Type of Loss	Method Managed
e. Health and life	Included in the City of Albion's health insurance plan. Plan.
f. Boiler & machinery	Insurance coverage with Travelers Insurance Company.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4(c) Commitments and Contingencies

Commitments - Construction

At September 30, 2007, the Housing Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
2005 CFP	\$ 320,775	\$ 302,088
2006 CFP	309,660	11,389
2007 CFP	<u>319,879</u>	<u>-</u>
	<u>\$ 950,314</u>	<u>\$ 313,477</u>

Contingencies

The Housing Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

4(d) Equity Transfers

Low Rent Program

To adjust for replacement of non-expense property	\$ (7,513)
Transfer in from CAP funds	<u>58,951</u>
	51,438

Capital Fund Program

Transfer to Low Rent	<u>(58,951)</u>
Net Transfer out	<u>\$ (7,513)</u>

SUPPLEMENTARY INFORMATION

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
BY PROGRAM
September 30, 2007
=====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 139,458	\$
Receivables:		
Tenants-dwelling rents	8,590	
Allowance for doubtful accounts	(661)	
Investments-unrestricted	768,151	
Prepaid expenses	<u>30,346</u>	
Total current assets	<u>945,884</u>	
Capital assets:		
Land	19,144	
Buildings	9,144,043	
Equipment	457,704	16,083
Building improvements	<u>2,213,171</u>	<u>580,312</u>
	11,834,062	596,395
Less accumulated depreciation	<u>(9,743,148)</u>	
Net capital assets	<u>2,090,914</u>	<u>596,395</u>
Total Assets	<u>\$ 3,036,798</u>	<u>\$ 596,395</u>

Totals

\$ 139,458

8,590

(661)

768,151

30,346

945,884

19,144

9,144,043

473,787

2,793,483

12,430,457

(9,743,148)

2,687,309

\$ 3,633,193

ALBION HOUSING COMMISSION
 COMBINING STATEMENT OF NET ASSETS
 BY PROGRAM (CONTINUED)
 September 30, 2007
 =====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 18,412	
Accrued expenses	14,115	
Accounts payable-other government	22,672	
Tenant security deposits	28,523	
Deferred revenues	<u>10,502</u>	
Total current liabilities	94,224	
Noncurrent liabilities:		
Accrued compensated absences	<u>78,951</u>	
Total liabilities	<u>173,175</u>	
Net Assets:		
Invested in capital assets	2,090,914	596,395
Unrestricted net assets	<u>772,709</u>	
Total net assets	<u>2,863,623</u>	<u>596,395</u>
Total Liabilities and Net Assets	<u>\$3,036,798</u>	<u>\$ 596,395</u>

Totals

\$ 18,412
14,115
22,672
28,523
10,502

94,224

78,951

173,175

2,687,309
772,709

3,460,018

\$3,633,193

ALBION HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS BY PROGRAM**
 Year Ended September 30, 2007
 =====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 343,067	\$
Nondwelling rent	6,301	
Operating grants	<u>469,252</u>	
Total operating revenues	<u>818,620</u>	
OPERATING EXPENSES:		
Administration	370,832	
Tenant services	20,877	
Utilities	122,853	
Ordinary maintenance and operation	360,040	
Protective services	864	
General expenses	104,542	
Extraordinary maintenance	717	
Depreciation	<u>165,823</u>	
Total operating expenses	<u>1,146,548</u>	
Operating income(loss)	<u>(327,928)</u>	
NONOPERATING REVENUES:		
Investment interest income	46,702	
Other income	<u>27,859</u>	
Total nonoperating revenues	<u>74,561</u>	
Income(loss) before contributions and transfers	<u>(253,367)</u>	
CAPITAL CONTRIBUTIONS		144,968
EQUITY TRANSFERS	<u>51,438</u>	<u>(58,951)</u>
Change in net assets	<u>(201,929)</u>	86,017
Net assets, beginning	<u>3,065,552</u>	<u>510,378</u>
Net assets, ending	<u><u>\$2,863,623</u></u>	<u><u>\$596,395</u></u>

<u>Totals</u>	
\$	343,067
	6,301
	<u>469,252</u>
	<u>818,620</u>
	370,832
	20,877
	122,853
	360,040
	864
	104,542
	717
	<u>165,823</u>
	<u>1,146,548</u>
(<u>327,928)</u>
	46,702
	<u>27,859</u>
	<u>74,561</u>
(253,367)
	144,968
(<u>7,513)</u>
(115,912)
	<u>3,575,930</u>
	<u>\$3,460,018</u>

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM

Year Ended September 30, 2007

=====

	Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 358,950	\$
Cash received from operating grants	469,252	
Cash payments to other suppliers of goods and services	(428,294)	
Cash payments to employees for services	(525,648)	
Cash payments for in lieu of taxes	<u>(22,003)</u>	
Net cash (used) by operating activities	<u>(147,743)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Equity transfers in(out)	58,951	(58,951)
Tenant security deposits	1,540	
Other revenue	<u>27,859</u>	
Net cash provided (used) by noncapital financing activities	<u>88,350</u>	<u>(58,951)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		144,968
Payments for capital acquisitions	<u>(10,107)</u>	<u>(86,017)</u>
Net cash provided (used) by capital and related financing activities	<u>(10,107)</u>	<u>58,951</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments decreased (increased)	(369,579)	
Receipts of interest and dividends	<u>46,702</u>	
Net cash (used) by investing activities	<u>(322,877)</u>	
Net increase(decrease) in cash	(392,377)	
Cash and cash equivalents, beginning	<u>531,835</u>	
Cash and cash equivalents, ending	<u><u>\$ 139,458</u></u>	<u><u>\$</u></u>

Totals

\$ 358,950
469,252

(428,294)
(525,648)
(22,003)

(147,743)

1,540
27,859

29,399

144,968
(96,124)

48,844

(369,579)
46,702

(322,877)

(392,377)

531,835

\$ 139,458

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
BY PROGRAM (CONTINUED)

Year Ended September 30, 2007

=====

Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
---------------------------------------	---

RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:

Operating income(loss)	\$(327,928)	\$
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	165,823	
Bad debt allowance adjustment	(5,700)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	1,778	
Prepaid expenses	(439)	
Increase (decrease) in liabilities:		
Accounts payable	2,939	
Accrued wage/payroll taxes payable	(1,229)	
Accrued compensated absences	8,540	
Accounts payable-PILOT	669	
Deferred revenues	<u>7,804</u>	
Net cash (used) by operating activities	<u>\$(147,743)</u>	<u>\$</u>

Totals

\$ (327,928)

165,823
(5,700)

1,778
(439)

2,939

(1,229)
8,540
669
7,804

\$ (147,743)

ALBION HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2007
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Major - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 469,252
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2007	Capital Fund Program	14.872	<u>144,968</u>
	Total		<u>\$ 614,220</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2007
=====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 110,935	\$
114	Cash-tenant security deposits	<u>28,523</u>	<u> </u>
100	Total cash	<u>139,458</u>	<u> </u>
	Receivables:		
126	A/R-tenants-dwelling rents	8,590	
126.1	Allowance for doubtful accounts	(<u>661</u>)	<u> </u>
120	Total receivables, net of allowance for doubtful accounts	<u>7,929</u>	<u> </u>
131	Investments-unrestricted	<u>768,151</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>30,346</u>	<u> </u>
150	Total current assets	<u>945,884</u>	<u> </u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	19,144	
162	Buildings	9,144,043	
163	Furn, equip & mach-dwellings	91,561	7,440
164	Furn, equip & mach-admin.	366,143	8,643
165	Building improvements	2,213,171	580,312
166	Accumulated depreciation	(<u>9,743,148</u>)	<u> </u>
160	Total fixed assets, net of accumulated depreciation	<u>2,090,914</u>	<u>596,395</u>
180	Total noncurrent assets	<u>2,090,914</u>	<u>596,395</u>
190	Total Assets	<u>\$ 3,036,798</u>	<u>\$596,395</u>

Totals

\$ 110,935
28,523

139,458

8,590
(661)

7,929

768,151

30,346

945,884

19,144
9,144,043
99,001
374,786
2,793,483
(9,743,148)

2,687,309

2,687,309

\$3,633,193

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2007
=====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable	\$ 18,412	\$
321	Accrued wage/payroll taxes payable	5,343	
322	Accrued compensated absences-current portion	8,772	
333	Accounts payable-other government	22,672	
341	Tenant security deposits	28,523	
342	Deferred revenues	<u>10,502</u>	
310	Total current liabilities	<u>94,224</u>	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>78,951</u>	
350	Total noncurrent liabilities	<u>78,951</u>	
300	Total liabilities	<u>173,175</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>2,090,914</u>	<u>596,395</u>
508	Total invested in capital assets	2,090,914	596,395
512.1	Unrestricted net assets	<u>772,709</u>	
513	Total Net Assets	<u>2,863,623</u>	<u>596,395</u>
600	Total Liabilities and Net Assets	<u>\$ 3,036,798</u>	<u>\$596,395</u>

Totals

\$ 18,412

5,343

8,772

22,672

28,523

10,502

94,224

78,951

78,951

173,175

2,687,309

2,687,309

772,709

3,460,018

\$3,633,193

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2007
 =====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 343,067	\$
704	Tenant revenue-other	<u>6,301</u>	
705	Total tenant revenue	349,368	
706	HUD PHA grants	469,252	
706.1	Capital grants		144,968
711	Investment income-unrestricted	46,702	
715	Other income	<u>27,859</u>	
700	Total revenue	<u>893,181</u>	<u>144,968</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	204,926	
912	Auditing fees	4,500	
914	Compensated absences	8,540	
915	Employee benefit contributions-adm.	77,327	
916	Other operating-administrative	75,539	
	Tenant services:		
924	Tenant services-other	20,877	
	Utilities:		
931	Water	48,186	
932	Electricity	33,272	
933	Gas	41,395	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	176,295	
942	Ordinary maint & oper-mat'ls & other	38,236	
943	Ordinary maint & oper-contract costs	79,638	
945	Employee benefit contributions	65,871	
953	Protective services-other	864	
	General expenses:		
961	Insurance premiums	77,741	
963	Payments in lieu of taxes	22,672	
964	Bad debt-tenant rents	<u>4,129</u>	
969	Total operating expenses	<u>980,008</u>	
970	Excess operating revenue over operating expenses	<u>(86,827)</u>	<u>144,968</u>

Totals

\$ 343,067
6,301
349,368
469,252
144,968
46,702
27,859

1,038,149

204,926
4,500
8,540
77,327
75,539

20,877

48,186
33,272
41,395

176,295
38,236
79,638
65,871
864

77,741
22,672
4,129

980,008

58,141

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2007
 =====

FDS Line Item No.		Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	717	
974	Depreciation expense	<u>165,823</u>	
	Total other expenses	<u>166,540</u>	
900	Total expenses	<u>1,146,548</u>	
1000	Excess(deficiency) of operating revenue over(under) expenses	(253,367)	144,968
1103	Beginning Net Assets	3,065,552	510,378
1104	Prior period adjustments, equity transfers and correction of errors	<u>51,438</u>	<u>(58,951)</u>
	Ending Net Assets	<u>\$ 2,863,623</u>	<u>\$596,395</u>

Totals

717
165,823

166,540

1,146,548

(108,399)

3,575,930

(7,513)

\$3,460,018

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

I have audited the financial statements of the business-type activities of Albion Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated April 25, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Commission's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Housing Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted principles such that there is more than a remote likelihood that a misstatement of the Housing Commission's financial statements that is more than inconsequential will not be prevented or detected by the Housing Commission's internal control.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Albion Housing Commission
Page Two

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Housing Commission's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated April 25, 2008.

This report is intended solely for the information and use of management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Taudels, P.A., P.C.

April 25, 2008

**Report on Compliance with Requirements
Applicable To Each Major Program and
on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

Compliance

I have audited the compliance of Albion Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
on Internal Control Over Compliance in
Accordance with OMB Circular A-133
Albion Housing Commission
Page Two

Compliance (continued)

As described in items 07-1, 07-2, 07-3, and 07-4 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, tenant selection, physical inspections, and records management that are applicable to the Low Rent Public Housing program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Housing Commission, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Housing Commission's internal control over compliance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider

Report on Compliance with Requirements
Applicable to Each Major Program and
on Internal Control Over Compliance in
Accordance with OMB Circular A-133
Albion Housing Commission
Page Three

Internal Control Over Compliance (Continued)

the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, 07-3, and 07-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider items 07-2, 07-3, and 07-4, to be material weaknesses.

The Housing Commission's response to the findings identified in my audit are described in the accompanying corrective action plan. I did not audit the Housing Commission's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Sandlett, CPA, PC

April 25, 2008

ALBION HOUSING COMMISSION
STATUS OF PRIOR AUDIT FINDINGS
September 30, 2007
=====

- Finding 06-1: The Housing Commission's ratio for this financial indicator was 11.15 for the fiscal year ended September, 30, 2007. This finding has not been cleared.
- Finding 06-2: Documentation to determine eligibility is missing or incorrect in the tenant files for the Low Rent Public Housing Program. This finding has not been cleared.
- Finding 06-3: The criminal background check was in 5 of the 9 tenant files tested. This finding has not been cleared.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2007

=====

SECTION I - SUMMARY OF AUDITOR RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Albion Housing Commission.
2. There were no control deficiencies disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Albion Housing Commission were disclosed during the audit.
4. Five reportable conditions in internal control over major federal award programs disclosed during the audit are reported in Section III - Federal Award Findings as findings 07-1, 07-2, 07-3, 07-4, and 07-5. Findings 07-2, 07-3, and 07-4 were reported as material weaknesses.
5. The auditor's report on compliance for the major federal award programs for Albion Housing Commission expresses a qualified opinion on the Low Rent Public Housing program.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

Low Rent Public Housing program CFDA No. 14.850a
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Albion Housing Commission was not determined to be a low-risk auditee because of prior year findings.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS

Low Rent Public Housing Program - CFDA No. 14.850a

Finding Item 07-1: Year Ended September 30, 2007

Condition and Criteria: Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the program or if the program is being run correctly in all cases without proper and complete documentation.

Cause: The staff in charge of this program did not obtain 100% of the correctly completed documentation.

Population and Items Tested: We selected five public housing files to test from an Ad-hoc Tenant Report supplied by the Housing Commission. We started with the 8th tenant on the list and selected every 40th tenant after that until a total of five were selected from a population of 202 tenant files.

We found the following errors in the documentation in the tenant files:

	<u># of Errors</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	0
3. Incorrect Verification of Income	0
4. Incorrect Verification of Expenses	1
* L-002-2137-05 Incorrect calculation	
5. Incorrect Verification of Assets	1
* L-002-2137-05 Verification amounts not on worksheet	
6. Inspection Report for fiscal year is missing or incorrect	2
* L-001-1078-07 Missing move-in	
* L-001-1055-07 Missing annual	
7. Lease missing or incorrect	1
8. Application missing or incorrect	2
* Waiting list file - Missing part of application	
* Waiting list file - Missing part of application	
9. Copy of Photo I.D. missing	0

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Low Rent Public Housing Program - CFDA No. 14.850a

Finding Item 07-1 (Continued): Year Ended September 30, 2007

Population and Items Tested (Continued):

	<u># of Errors</u>
10. Copy of Proof of Social Security Number Verification missing	0
* L-001-1078-07 Kevonta not on first lease	
11. Copy of Birth Certificate	0
12. Worksheet for HUD-50058 missing or incorrect	0
13. Flat Rent/Income Based Rent Choice missing or incorrect	0
14. Notice of Rent Adjustment missing or incorrect	0
15. Criminal Background Check not done, not documented, or it was in the file	2
* L-002-2137-05 In file	
* L-001-1008-06 In file	
16. Declaration of 214 Status missing or incorrect	0
17. Check for Previous Eviction from Public Housing not done or incorrect	1
* Waiting list file - Not done	
18. Annual Family Composition Review missing or incorrect	0
19. Annual Review missing or incorrect	0
20. Lead based paint disclosure missing or incorrect	<u>1</u>
Total	<u>11</u>

Out of a possible 100, there were 11 exceptions from this test. This represents an exception rate of 11.0%.

Auditor's Recommendation: It is recommended that the Housing Commission continue the process of correcting the tenant files where possible.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Low Rent Public Housing Program - CFDA No. 14.850a

Finding Item 07-2: Year Ended September 30, 2007

Criteria or Specific Requirement: 24 CFR 960.202 Tenant Selection Policies.

Condition: During testing of new admissions to the program, it was discovered that there was not adequate documentation that new admissions to the program were selected correctly from the waiting list. Also, the tenant selection process does not consistently match the Housing Commission's policy. The Housing Commission's Admission and Continued Occupancy Policies (ACOP) lists preferences, but applicant's preferences are not being documented and used in the tenant selection process. In addition, the ACOP states that the applicant's will have 30 days to provide information to document their application for eligibility, but are actually only given 5 to 7 days. Finally, the ACOP speaks of a pre-application, but the Housing Commission currently is not using one in the selection process.

Effect: Eligible tenants may not have been admitted to the program, or they may not have been admitted in the correct order.

Cause: The staff members in charge of this program did not have enough documentation to show that the new admissions were selected in the correct order. In addition, staff did not consistently follow the ACOP waiting list policy when selecting applicants from the waiting list.

Auditors Recommendation: It is recommended that the Housing Commission improve the documentation process by placing a copy of the appropriate waiting list in a central file when an applicant is admitted to the program. If they are not at the top of the waiting list at the time of admission, there should be adequate documentation for anyone above them on the waiting list as to why they were skipped. Also, the process of managing the waiting list should match the ACOP policy or the ACOP policy should be changed to match a consistent process. In addition, the waiting list documentation that is saved should match the Housing Commission's policy. For example, if the policy lists preferences, the saved waiting lists should be sorted by preference.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Low Rent Public Housing Program - CFDA No. 14.850a

Finding Item 07-3: Year Ended September 30, 2007

Criteria or Specific Requirement: 24 CFR 5.705 Uniform Physical Inspection Requirements.

Condition: There was no evidence in the tenant files, or available outside of the tenant files to show that all of the tenant units were inspected.

Effect: Tenants may be in substandard units.

Cause: The Housing Commission staff did not perform initial inspections or annual inspections or did not have documentation showing that they were done for every tenant file tested.

Population and Items Tested: Out of 202 tenants, five were tested and of these, two did not have inspection records. This represents an exception rate of 40%.

Auditor's Recommendation: Initial and annual inspections should be performed on the units and the results documented on a proper inspection form. Work orders should be generated for any deficiencies and those deficiencies corrected.

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2007
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Low Rent Public Housing Program - CFDA No. 14.850a

Finding Item 07-4: Year Ended September 30, 2007

Criteria or Specific Requirement: 24 CFR 5.903(g) Records management.

Condition: During testing of the tenant files, it was discovered that the criminal record was in some tenant files.

Effect: Tenant privacy rights could have been violated.

Cause: The staff members in charge of this program did not destroy the criminal records once the period for challenge had passed.

Population and Items Tested: Out of the five files tested, two of the five had a criminal record in the tenant file. This represents an exception rate of 40%.

Auditors Recommendation: It is recommended that the Housing Commission obtain statewide criminal sexual background checks and general background checks when required in the future. Documentation should be retained that supports that they were done when required. Criminal background checks should be kept in a central file and the record must be destroyed once the time for a challenge has passed. Alternate documentation such as a housing commission form documenting that the required checks have been done should be used to document that the required criminal background checks were done.

Finding Item 07-5: Year Ended September 30, 2007

Criteria: HUD has a financial indicator for tenant receivable outstanding for "small" housing commissions of equal to or less than 4.5.

Condition: The Housing Commission's ratio for this financial indicator was 9.0 for the fiscal year ended September 30, 2007.

Effect: This has the effect of reducing the tenant revenues of the Housing Commission if not collected.

Cause: The Housing Commission needs to continue enforcement actions according to policies.

Auditors Recommendation: The Housing Commission has improved this ratio from the prior fiscal year. I recommend that the Housing Commission continue to be diligent in following its collection policy. Also, the Housing Commission should attempt to have accounts receivable be less than 10% of the monthly rent roll, i.e. approximately \$3,500.

ALBION HOUSING COMMISSION
CORRECTIVE ACTION PLAN

September 30, 2007

=====

Finding 07-1 - Missing Documentation

The Albion Housing Commission will continue to correct, improve and process the correction of tenant files upon Recertifications, Interim, Move Ins and Move Outs.

Finding 07-2 - Tenant Selection Policies

The Albion Housing Commission will continue to work to improve adequate documentation to show that new applicants are selected adequately from its waiting list. The Housing Commission will continue to work and receive training for managing its waiting list. The Housing Commission will also become in compliance with the current ACOP for an applicant to provide information based on eligibility. The Albion Housing Commission ACOP is correctly being updated.

Finding 07-3 - Uniform Physical Inspection Requirements

The Albion Housing Commission will continue to ensure safe, descent sanitary housing for its' residents. The Housing Commission will ensure that each tenant file upon the completion of Initial and Annual inspections, will have all proper inspection forms completed at the time of inspections. Work orders will continue to be created for any deficiencies found during inspections.

Finding 07-4 - Records Management

The Albion Housing Commission performs background checks for each applicant. The Albion Housing Commission has put in place a policy for the removal of criminal and credit background checks performed on all prospective tenants. The Housing Commission will continue to remove background checks from tenant files and will continue to provide documentation stating criminal and credit background checks has been completed and approved by its Executive Director.

Finding 07-5 - Accounts Receivable

The Albion Housing Commission will continue to improve the reduction of its tenants receivables by following its Collection Policy. Tenant Collection Losses will continue to be written off quarterly.

The above corrective action plan will be implemented immediately and the person responsible will be Ann Kemp, the Executive Director.

ALBION HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2007
=====

Financial
Assessment
Electronic
Submission

<u>Line #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
<u>Low Rent Public Housing Program</u>			
	(1)		
114	Cash-tenant security deposits	\$ 28,523.00	
111	Cash-unrestricted		\$ 28,523.00
	(2)		
1104	Correction error	7,440.00	
163	Equipment-dwellings		7,440.00
	(3)		
166	Accumulated depreciation	177.14	
974	Depreciation expense		177.14
	(4)		
512.1	Unrestricted net assets	177.14	
508.1	Invested in capital assets		177.14
	(5)		
508.1	Invested in capital assets	7,440.00	
512.1	Unrestricted net assets		7,440.00
<u>Capital Fund Program</u>			
	(1)		
163	Furniture, equipment & machinery-dwelling	7,440.00	
508.1	Invested in capital assets		7,440.00

ALBION HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2007

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

731 South Garfield Avenue
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

April 28, 2008

To the Board of Commissioners
Albion Housing Commission

I have audited the financial statements of the business-type activities of each major fund of the Albion Housing Commission ("Housing Commission") for the year ended September 30, 2007, and have issued my report thereon dated April 26, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133.

As stated in my engagement letter dated April 22, 2008, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing my audit, I considered Albion Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Albion Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit. Also in accordance with OMB Circular A-133, I examined, on a test basis, evidence about Albion Housing Commission's compliance with the types of compliance requirements

My Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133 (Continued)

described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Albion Housing Commission's compliance with those requirements. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on Albion Housing Commission's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Albion Housing Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending September 30, 2007. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There is no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of depreciation and allowance for bad debt were based on the useful life of the asset and the likelihood of collecting tenant rents based on prior experience. I evaluated the key factors and assumptions used to develop the depreciation expense and bad debt expense allowance in determining that they were reasonable in relation to the financial statements taken as a whole.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated April 26, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting

Communication with Those Charged with Governance
Page Four

Significant Audit Findings (Continued)

*Management Consultations with Other Independent Accountants
(Continued)*

accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Please see the next section for Management Advisory Comments.

This information is intended solely for the use of the audit committee or its equivalent, management, HUD, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Barry E. Gaudette, CPA

ALBION HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2007
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Compensated Absences

Management should provide the fee accountant with information each month on payroll compensated absences (i.e. vacation and sick leave amounts). Recently I had REAC reject an audit submission because this amount was not reported on line 914 of the electronic submission properly. Also, information for the noncurrent compensated absences changes during the fiscal year have to be kept track of the audit report in the future. This is a GASB 34 requirement.

Policies

All policies that have not been updated since 1999 should be reviewed and be updated if necessary. I am aware that the ACOP and procurement policies have changed since 1999 and the Housing Commission has not updated them.

Petty Cash

The Housing Commission has \$200 in petty cash, but this amount is not recorded in the general ledger. The fee accountant should be made aware of this omission.

Tenant Receipts

A couple of years ago, the Housing Commission, began issuing tenant receipts only when requested by the tenant. To improve internal controls in the revenue area, I recommend the Housing Commission reconsider issuing tenant receipts to all tenants. In other words, if a tenant pays their rent in person, a receipt would be given to them or if the rent is mailed, the receipt would be available to the tenant if they ask for it.

Vacation Policy

The Housing Commission's personnel policy states that employees are encouraged to take annual vacations to the extent they are earned. Vacation leave not used by employees may be accumulated up to two weeks upon approval of the Executive Director. The vacation year for vacation purposes shall be the anniversary date of the employee's most current date of hire with the Housing Commission. As of September 30, 2007, there are several employees with significant amounts of unused vacation leave time accumulated. I recommend that the Housing Commission either revise the personnel leave policy or adjust the accumulated amount.